



higher education  
& training

Department:  
Higher Education and Training  
REPUBLIC OF SOUTH AFRICA



**SUBJECT: Financial Management**

**LEVEL: 4**

**Date: 30/07/2020**

**MODULE NAME: Calculate tax payable by a small business.**

Date: 30/07/2020

## After completing this topic, you will be able to:

- Distinguish between the main business expenses that are not allowable for income tax purposes and those that are allowable.
- Understand and calculate capital allowances
- Calculate the figures required for the completion of an income tax return..
- Calculate the tax payable by an individual whom is a Sole Trader.
- Apply the concept of limited liability and incorporation.

# TOPIC 5

- Continuation of TOPIC 5
- **Exempted Income**
- This is the income that SARS exempt from tax.
- Exempted income falls into the following categories:
  - Income on which tax is already paid.
  - Income that does not fall within the definition given above.
  - Income received on behalf of a third party such as VAT that is collected on behalf of SARS.
  - The business is an agent for SARS as it collects VAT on behalf of SARS.
  - Income received from the sale of a capital asset.
  - When Capital item is sold, it is subject to capital gains tax and is excluded from business income for tax purposes.


# Allowable and non-allowable expenses

- Business expenses or deductions from taxable income falls into one of the 2 categories:
  1. Expenditure that is allowed in terms of the Income Tax Act and
  2. Expenditure that is not allowed in terms of the Income Tax Act.
- The rules to the deduction of expenses are contained within a statement called general deductions formula.
- This formula states that allowable expenses are expenses and losses which are incurred in the production of income.
- They are also not capital in nature.


# Different section in the general deduction formula

- Expenses and losses actually incurred in the production of income
  - Expenses and losses claimed against the taxable income should be in the name of the business.
  - The amount of expenditure must be determinable.
  - The expenditure cannot be deducted if the value of the expenditure is unclear.
  - Or if the expenditure will occur in the future.
  - Expenditure actually incurred means that the business has incurred the expenses.
  - The business is legally responsible for paying that expense.
  - The expense must have been incurred in the production of income.





- **Expenses and losses that are not capital in nature**

- The Income Tax Act defines Capital as : The expense that leaves a benefit long after the expense is paid.
- Therefore, capital expenses can create an income source for the business that is a lasting benefit for the company rather than short-term use.
- E.g. The office building is a Capital item.
- The cost of the building is capital in nature and can be used for a number of years.
- On the other hand, a Company that is in a business of selling cars, can only refer these cars they are selling as stock/ inventory. They are not Capital items and in nature.  
This business will be taxed on the Income generated by selling the cars.

# Improvements and repairs to Capital Assets

- If an expense improves the value of the asset, the expenditure is Capital in nature as it adds a financial advantage to the business.
- But if the expense maintains the use and value of a Capital asset, then the expenditure is paid in order to continue business operations and is a deductible expense for income tax purposes.
- Read through pages 248-250 Examples of how the general deduction formula could be applied.

# Rebates

- A rebate is an allowance to individuals against tax payable.
- A rebate is a discount, return or a refund on your tax payable.
- Rebates are deducted from tax calculated on the taxable income.
- Rebates gives tax payer some form of tax relief.
- Rebates are revised every year.
- Companies are not allowed tax rebates which apply to individual tax payers.
- Tax rebates are applied according to the age of the tax payer as follows:



# Tax Rebates - see changes from previous years

Tax Rebate	TaxYear						
	2021	2020	2019	2018	2017	2016	2015
Primary	R14 958	R14 220	R14 067	R13 635	R13 500	R13 257	R12 726
Secondary (65 and older)	R8 199	R7 794	R7 713	R7 479	R7 407	R7 407	R7 110
Tertiary (75 and older)	R2 736	R2 601	R2 574	R2 493	R2 466	R2 466	R2 367

# Calculation of Tax Liability:

Sole trader's name:	John Nhlapo
Age:	68 years
Type of business:	Plumber
Taxable income:	R265 000.00
Tax period:	1 March 2018 to 28 February 2019

# Tax Table

- In order for to calculate the correct tax liability we will also need a tax table.

Taxable income (R)	Rates of tax (R)
1 – 205 900	18% of taxable income
205 901 – 321 600	37 062 + 26% of taxable income above 205 900
321 601 – 445 100	67 144 + 31% of taxable income above 321 600
445 101 – 584 200	105 429 + 36% of taxable income above 445 100
584 201 – 744 800	155 505 + 39% of taxable income above 584 200
744 801 – 1 577 300	218 139 + 41% of taxable income above 744 800
1 577 301 and above	559 464 + 45% of taxable income above 1 577 300

# Tax Liability calculation: Using amounts of 2019 from the Tax Table

Taxable income		R265 000.00
Initial Tax Liability	R37 062	
Plus: $(265\ 000 - 205\ 901) \times 26\%$	R15365.74	
Total Tax on income		R52 427.74
Less tax rebate (over 65) $(14\ 067 + 7\ 713)$		R21 780
Tax payable		R30 647.74

- **NOTE:**
- Mr. John Nhlapo is 68 years old.
- He therefore qualifies for **BOTH** Primary and Secondary rebates.
- Therefore, his tax liability is R 30 647.74. This amount must be paid to SARS.